

Newaygo County  
Mental Health ~~Board~~  
Authority  
Financial Statements  
September 30, 2004



## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Newaygo County Mental Health Board</b>	County <b>Newaygo</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>12/14/04</b>	Date Accountant Report Submitted to State: <b>3/22/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Roslund, Prestage &amp; Company, P.C.</b>			
Street Address <b>308 Gratiot Avenue</b>		City <b>Alma</b>	State <b>MI</b>
Accountant Signature <i>Roslund, Prestage &amp; Company P.C.</i>		ZIP <b>48801</b>	Date <b>3/22/05</b>

Newaygo County Mental Health Board  
Table of Contents  
September 30, 2004

---

**Independent Auditor's Report**

**Management's Discussion and Analysis** I - VII

**Basic Financial Statements:**

Government-wide Financial Statements:

Statement of Net Assets 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet – Governmental Funds 3

Reconciliation of Fund Balances on the Balance Sheet for  
Governmental Funds to Net Assets of Governmental  
Activities on the Statement of Net Assets 4

Statement of Revenues, Expenditures and Changes in Fund  
Balances – Governmental Funds 5-6

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds to the  
Statement of Activities 7

Statement of Net Assets – Proprietary Funds 8

Statement of Revenues, Expenses and Changes in Fund  
Net Assets – Proprietary Funds 9

Statement of Cash Flows – Proprietary Funds 10

Notes to the Financial Statements 11-25

**Required Supplemental Information:**

Budgetary Comparison Schedules 26-27

**Other Supplemental Information:**

Individual Fund Statements:

General Fund – Statement of Expenditures 28-29

**Government Auditing Standards Audit Reports** 30-31



## INDEPENDENT AUDITOR'S REPORT

Newaygo County Mental Health Board  
White Cloud, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newaygo County Mental Health Board (the Board), as of and for the year ended September 30, 2004, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2004 on our consideration of the Board's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages I-VII, and budgetary comparison information on pages 28-29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Board. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Company, P.C.*  
Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 14, 2004

**MANAGEMENT DISCUSSION  
AND ANALYSIS**

# **Newaygo County Mental Health Services**

## **Financial Statements and Management's Discussion and Analysis**

*For the year ended September 30, 2004*

The management of Newaygo County Mental Health (NCMH) presents the following discussion and analysis of the financial activities during the fiscal year 2003/2004. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The 2002/2003 fiscal year was the beginning of a contract period in which the Department of Community Health contracted for Medicaid services through a designated Prepaid Inpatient Health Plan (PIHP) which had to consist of 20,000 or more Medicaid covered lives. NCMH, which was created as a Mental Health Authority on January 1, 1999 by action of the Newaygo County Board of Commissioners, has entered into an affiliated cooperative agreement with Clinton Eaton Ingham Community Mental Health, Gratiot County Community Mental Health, Manistee Benzie Community Mental Health, and Ionia County Community Mental Health. This affiliation is informally called the Community Mental Health Affiliation of Mid-Michigan.

Clinton Eaton Ingham Community Mental Health was designated as the PIHP in this cooperative agreement and was awarded the Medicaid contract for the 8 county region. Clinton Eaton Ingham Community Mental Health has sub-contracted with NCMH to provide Medicaid covered services for the County of Newaygo for the current fiscal year. NCMH has approximately 8000 total Medicaid covered lives. The affiliation formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

Newaygo County Mental Health also holds a Managed Mental Health Supports and Services Contract with the Michigan Department of Community Health for general funds.

### **OVERVIEW OF FINANCIAL STATEMENTS**

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

**Authority-wide financial statements** include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

# **Newaygo County Mental Health Services**

## **Financial Statements and Management's Discussion and Analysis**

*For the year ended September 30, 2004*

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

**Fund financial statements** contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements.

The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure.

Fund financial statements report information using the modified accrual basis of accounting. For NCMH, the major funds consist of the general fund and the proprietary fund.

Governmental fund financial statements identify how day-to-day community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements identify funds set aside in our Internal Service Fund for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.



# Newaygo County Mental Health

## Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2004

### Summary of Net Assets

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2004 and 2003.

<b>Summary of Net Assets</b>		
As of September 30, 2004 and 2003		
(In dollars)		
	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current Assets	2,426,851	2,070,081
Restricted Assets	1,436,747	1,757,327
Capital Assets	<u>178,318</u>	<u>259,365</u>
Total Assets	4,041,916	4,086,773
<b>Liabilities</b>		
Current Liabilities	1,288,014	910,371
Noncurrent Liabilities – Comp. Absences	<u>141,812</u>	<u>128,241</u>
Total Liabilities	1,429,826	1,038,612
<b>Net Assets</b>		
Investment in capital assets	178,318	259,365
Reserved for Michigan Families	613,939	742,673
Restricted for risk management	75,685	269,365
Unrestricted	<u>1,744,148</u>	<u>1,776,758</u>
Total Net Assets	<b>\$ 2,612,090</b>	<b>\$ 3,048,161</b>

**Current financial position** is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$ 1,138,837, a decrease of \$ 20,873, or 2%, compared to prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

# **Newaygo County Mental Health**

## **Financial Statements and Management's Discussion and Analysis**

*For the year ended September 30, 2004*

**Restricted assets** consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of \$1,436,747 have decreased by \$320,580 or 19%.

**Capital assets** consist of property and equipment having an estimated useful life of more than one year. These assets are included on the statement of net assets at their original book value and restated to be net of the accumulated depreciation. As of the beginning of fiscal 2004, capital assets having an original book value of \$632,291 were recorded, net of restated accumulated depreciation of \$453,973, for a beginning net book value of \$178,318.00.

In fiscal 2004, no capital expenditures requiring depreciation were made. The net change in capital assets was a decrease of \$81,047 for the year. When capital expenditures exceed depreciation expense, the net increase represents an investment or expansion of capital resources. Conversely, a net decrease represents a reduction in capital resources available for the future.

As of year-end, the net book value of capital assets was 29% of the original book value compared to 41% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

**Noncurrent liabilities** consist of the liability for compensated absences that includes vested annual leave obligations.

**Restricted net assets** include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

**Unrestricted net assets** at the end of the year were \$ 1,744,148, an decrease of \$ 32,610.

Unrestricted net assets were 67% of total assets, up from 59% from the prior year.

# **Newaygo County Mental Health**

## **Financial Statements and Management's Discussion and Analysis**

*For the year ended September 30, 2004*

### **SUMMARY OF ACTIVITIES**

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2004 and 2003.

#### **Summary of Activities**

As of September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>Revenue</b>		
Medicaid specialty supports and services	4,458,096	4,774,345
State general fund priority populations	1,284,901	1,217,753
Grants and earned contracts	387,283	555,566
County appropriation	220,000	220,000
Interest income	24,142	36,198
Other local income	<u>50,663</u>	<u>167,054</u>
Total Revenue	6,425,085	6,970,916
<b>Expense</b>		
Personnel expense	3,440,224	3,287,710
Operating expense	<u>3,021,492</u>	<u>3,497,805</u>
Total Expense	6,461,716	6,785,515
Excess of Revenue over Expense	(19,848)	185,401

# **Newaygo County Mental Health**

## **Financial Statements and Management's Discussion and Analysis**

*For the year ended September 30, 2004*

**Excess of revenue over expenses** from activities for the current year was -19,848, or less than 1% of revenue. This is a decrease of \$204,848 from the prior year surplus of \$185,401.

**Revenue** for the year was \$6,461,716, a decrease of \$323,799 or 5% from the prior year.

**Medicaid specialty supports and services revenue** of \$4,458,096 represents 70% of total revenue and decreased \$316,249 or 6.6% compared to the prior year. Unspent Medicaid subcontract funds of \$855,807 are not revenue and are shown as amounts due to the PIHP.

**State general fund priority population revenue** (formula funding) of \$1,045,418 represents 16.2% of total revenue and decreased \$172,335, or 14% compared to the prior year. This decrease is largely attributable to the Adult Benefit Waiver (ABW) implementation. Funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Current year revenue includes \$59,343 of prior year deferred revenue. Unspent current year funds of \$31,968 are not included in current revenue. This amount is shown as deferred revenue available for next year.

**Grants and earned contract revenue** includes revenue sources for which the use of funds is restricted to a specific purpose.

**County appropriation revenue**, interest income and other local income are available to meet state matching fund requirements. The county appropriation was unchanged.

**Total expense** of \$ 6,461,716 has decreased \$ 323,799 or 4.7% compared to the prior year. Personnel expense is 53.2% of total expense and has decreased \$ 92,439 or 2.82%. Operating expense is 46.8% of total expense and has decreased \$ 55,330 or 1.8%.

# **Newaygo County Mental Health**

## **Financial Statements and Management's Discussion and Analysis**

*For the year ended September 30, 2004*

### **ACTUAL TO BUDGET COMPARISON**

The fiscal year 2003/2004 budget adopted by the governing board was \$ 7,291,526 of revenues and \$ 7,291,526 of expenses. The Actual compared to Budget is presented below.

	Actual	Budget	Variance
Revenue	\$6,444,120	\$7,291,526	\$(847,406)
Expenses	\$6,609,485	\$7,291,526	\$(682,041)

The comparison of fiscal year 2003/2004 as compared to fiscal year 2002/2003 is presented below.

	2003/2004	2002/2003	Variance
Revenue	\$6,444,120	\$6,970,916	\$(526,796)
Expenses	\$6,606,485	\$6,785,515	\$(179,030)

There are several reasons that account for the variance both between fiscal years and between current year actual and budget. NCMH is no longer able to retain up to 5% of its unused Medicaid funds, as the Medicaid contract is now held by CEI (the PIHP). Medicaid revenues and expenditures reflect actual Medicaid retained by NCMH and expenditures incurred by NCMH. These amounts do not include potential Medicaid savings or monies excess of 5% of Medicaid funds that were returned to the PIHP.

### **FUTURE OUTLOOK**

For the 2003/2004 fiscal year the Department of Community Health revised the Medicaid funding distribution based on a regional rate. The Community Mental Health Affiliation of Mid-Michigan made the decision to continue to fund each affiliate based on the same percentage as the 2002/2003 fiscal year. This two year hold harmless period will end September 30, 2005. The new funding formula for the affiliation is currently being calculated. It is expected that Newaygo County Mental Health will remain relatively stable, with a potential for an increase in funding. In anticipation of the funding changes for the 2006 fiscal year programs and services are being continually reviewed. Community Mental Health Affiliation of Mid-Michigan will complete the funding plan for 2006 by mid March 2005.

The State of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look good.

Management expects State revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of the Authority is currently healthy, the economic outlook will continue to put significant pressure on our ability to serve and support our constituents.

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

NEWAYGO COUNTY MENTAL HEALTH BOARD  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004 AND 2003

	Governmental Activities	
	2004	2003
<b>Assets</b>		
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$2,069,147	\$1,741,085
Accounts Receivable, net	205,567	163,482
Due from Other Governmental Units	77,499	109,837
Prepaid Expenses	74,638	55,677
Total Current Assets	2,426,851	2,070,081
Noncurrent Assets		
Cash and Cash Equivalents - Restricted	1,436,747	1,757,327
Capital Assets - Depreciable, Net	178,318	259,365
Total Noncurrent Assets	1,615,065	2,016,692
Total Assets	4,041,916	4,086,773
<b>Liabilities</b>		
Current Liabilities		
Accounts Payable	252,823	278,629
Deferred Revenue	31,968	59,343
Due to Other Governmental Units	892,087	492,561
Accrued Wages and Other Payroll Liabilities	111,136	79,838
Total Current Liabilities	1,288,014	910,371
Noncurrent Liabilities		
Compensated Absences	141,812	128,241
Total Noncurrent Liabilities	141,812	128,241
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	178,318	259,365
Reserved For Michigan Families Program	613,939	742,673
Reserved For Risk Management	75,685	269,365
Unreserved and Undesignated	1,744,148	1,776,758
Total Net Assets	\$2,612,090	\$3,048,161

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

Functions	Expenses	Program Revenues		Net (Expense) Revenue And Changes In Net Assets	
		Charges for Services	Operating Grants and Contributions	2004	2003
Governmental Activities					
Health & Welfare - Mental Health	<u>\$6,704,103</u>	<u>\$4,506,180</u>	<u>\$1,921,062</u>	(\$276,861)	\$36,814
General Revenues					
Unrestricted Investment Earnings				24,142	23,499
Restricted Investment Earnings				<u>11,194</u>	<u>16,821</u>
Total General Revenues and Contributions				35,336	40,320
Transfers To Affiliates				<u>(195,355)</u>	-
Change in Net Assets				(436,880)	77,134
Net Assets - Beginning Of Year				3,048,161	2,971,027
Prior Period Adjustment				<u>809</u>	-
Net Assets - End Of Year				<u>\$2,612,090</u>	<u>\$3,048,161</u>

The notes to the financial statements are an integral part of this statement.



## **FUND FINANCIAL STATEMENTS**

NEWAYGO COUNTY MENTAL HEALTH BOARD  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2004 AND 2003

	MAJOR FUNDS		Total Governmental Funds	
	General Fund	Michigan Families	2004	2003
<b>Assets</b>				
Cash and cash equivalents - unrestricted	\$2,069,147	-	\$2,069,147	\$1,741,086
Accounts receivable, net	205,567	-	205,567	163,482
Due from other governmental units	77,499	-	77,499	109,837
Prepaid expenses	74,638	-	74,638	55,677
Cash and cash equivalents - restricted	747,123	\$613,939	1,361,062	1,487,961
<b>Total Assets</b>	<b>\$3,173,974</b>	<b>\$613,939</b>	<b>\$3,787,913</b>	<b>\$3,558,043</b>
<b>Liabilities</b>				
Accounts payable	\$252,823	-	\$252,823	\$278,629
Deferred revenue	31,968	-	31,968	59,343
Accrued wages and other payroll liabilities	111,136	-	111,136	79,838
Due to other governmental units	892,087	-	892,087	492,561
<b>Total liabilities</b>	<b>1,288,014</b>	<b>-</b>	<b>1,288,014</b>	<b>910,371</b>
<b>Fund balances</b>				
Reserved for Michigan families program	-	\$613,939	613,939	742,673
Reserved for prepaid expenses	74,638	-	74,638	55,677
Unreserved	1,811,322	-	1,811,322	1,849,322
<b>Total fund balances</b>	<b>1,885,960</b>	<b>613,939</b>	<b>2,499,899</b>	<b>2,647,672</b>
<b>Total liabilities and fund balances</b>	<b>\$3,173,974</b>	<b>\$613,939</b>	<b>\$3,787,913</b>	<b>\$3,558,043</b>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD  
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

---

Total fund balance - governmental funds	\$2,499,899
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	632,291
Deduct: accumulated depreciation	(453,973)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	75,685
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: compensated absences	<u>(141,812)</u>
Net assets of governmental activities	<u><u>\$2,612,090</u></u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	General Fund	Michigan Families	Total Governmental Funds	
			2004	2003
<b>Revenues</b>				
State Grants				
Department of Community Health Contract	\$1,045,418	-	\$1,045,418	\$1,217,753
Adult Benefit Waiver	230,512	-	230,512	-
Michigan Families Program	-	\$9,516	9,516	58,682
MI Child	8,971	-	8,971	8,635
Title XX	2,579	-	2,579	2,579
Geriatric Grant	-	-	-	58,913
FMRC Grant	-	-	-	2,727
Total State Grants	1,287,480	9,516	1,296,996	1,349,289
Federal Grants				
Mental Health Block Grant	3,236	-	3,236	5,780
Strong Families Safe Children	-	-	-	108,000
Alzheimer's Grant	60,450	-	60,450	65,000
PAS / ARR Grant	11,649	-	11,649	8,845
Total Federal Grants	75,335	-	75,335	187,625
Contributions - Local Units				
Child Care	-	-	-	12,000
County Appropriations	220,000	-	220,000	220,000
Total Contributions - Local Units	220,000	-	220,000	232,000
Charges for Services				
Medicaid - DCH Contract	4,360,685	-	4,360,685	4,677,422
Medicaid - Other	97,411	-	97,411	96,923
Client and Third Party Pay	48,084	-	48,084	164,475
Total Charges for Services	4,506,180	-	4,506,180	4,938,820
Interest and Rents	24,142	9,519	33,661	36,198
Other Revenue	311,948	-	311,948	226,984
Total Revenues	6,425,085	19,035	6,444,120	6,970,916

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

Expenditures	General Fund	Michigan Families	Total Governmental Funds	
			2004	2003
Health & Welfare - Mental Health				
Personnel Expenditures	\$3,440,224	\$92,439	\$3,532,663	\$3,287,710
Operating Expenditures	3,021,492	55,330	3,076,822	3,497,805
Capital Outlay	-	-	-	-
Total Expenditures	<u>6,461,716</u>	<u>147,769</u>	<u>6,609,485</u>	<u>6,785,515</u>
Revenues Over (Under) Expenditures	(36,631)	(128,734)	(165,365)	185,401
Other Financing Sources (Uses)				
Operating Transfers In (Out) - Internal Service Fund	<u>16,783</u>	<u>-</u>	<u>16,783</u>	<u>-</u>
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	(19,848)	(128,734)	(148,582)	185,401
Fund Balance, October 1	1,904,999	742,673	2,647,672	1,818,744
Prior Period Adjustment	<u>809</u>	<u>-</u>	<u>809</u>	<u>643,527</u>
Fund Balance, September 30	<u>\$1,885,960</u>	<u>\$613,939</u>	<u>\$2,499,899</u>	<u>\$2,647,672</u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

---

Net change in fund balances - total governmental funds	(\$148,582)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Deduct: depreciation expense	(81,047)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: interest income from governmental internal service fund	1,675
Less: Transfers out to affiliates	(178,572)
Less: Transfers out to general fund	(16,783)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Less: increase in accrual for compensated absences	(13,571)
Change in net assets of governmental activities	<hr/> (\$436,880) <hr/>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2004 AND 2003

---

		<u>Internal Service Funds</u>	
		<u>2004</u>	<u>2003</u>
<b>Assets</b>			
Cash and cash equivalents		<u>\$75,685</u>	<u>\$269,365</u>
<b>Net Assets</b>			
Restricted		<u>\$75,685</u>	<u>\$269,365</u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	Internal Service Funds	
	2004	2003
Non-Operating Revenues (Expense)		
Interest Income	\$1,675	\$4,122
Operating Transfers		
Operating Transfers Out - Abatement, General Fund	(16,783)	-
Operating Transfers Out - Affiliates	(178,572)	-
Change In Net Assets	(193,680)	4,122
Net Assets, October 1	269,365	265,243
Net Assets, September 30	<u>\$75,685</u>	<u>\$269,365</u>

The notes to the financial statements are an integral part of this statement.



NEWAYGO COUNTY MENTAL HEALTH BOARD  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	Internal Service Funds	
	2004	2003
Cash Flows from Investing Activities		
Interest Income	\$1,675	\$4,122
Cash Flows From Capital and Related Financing Activities		
Operating Transfers Out - Abatement, General Fund	(16,783)	-
Operating Transfers Out - Affiliates	(178,572)	-
Net Change in Cash and Cash Equivalents	(193,680)	4,122
Cash and Cash Equivalents, October 1	269,365	265,243
Cash and Cash Equivalents, September 30	<u>\$75,685</u>	<u>\$269,365</u>
Reconciliation of Operating Income To Net Cash Provided By (Used For) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE FINANCIAL STATEMENTS**

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Newaygo County Mental Health Board (the Board) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Board.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Board's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Board's activities.
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Board has implemented the provisions of Statement No. 34 effective October 1, 2002.

### **Reporting Entity**

The Newaygo County Mental Health Board elected to become a Mental Health Authority effective January 1, 1999.

The Board operates under the provisions of Act 258- Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Board arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Newaygo who meet eligibility and other criteria. As the community mental health services provider for Newaygo County, the Board also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Board's reporting entity, and which organizations are legally separate, component units of the Board. Based on the application of the criteria, the Board does not contain any component units.

## **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Board. *Governmental activities* normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

## **Measurement Focus, Basis of Accounting and Basis of Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Newaygo County Mental Health Board  
Notes To Financial Statements

---

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Board has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2004 and 2003, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Board that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

**General Fund** – This fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in other funds.

**Michigan Families Fund** – The fund accounts for the activities of the Michigan Families program.

Newaygo County Mental Health Board  
Notes To Financial Statements

---

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**Budgetary Data**

Budgets are adopted by the Board for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

**Cash and Cash Equivalents**

The Board's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are stated at cost.

Michigan Compiled Laws, Section 129.91, authorized the Board to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Board's deposits are in accordance with statutory authority.

**Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Newaygo County Mental Health Board  
Notes To Financial Statements

---

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Inventories**

The Board does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are recorded as an expenditure when purchased.

**Capital Assets**

Capital assets, which include equipment, software and vehicles, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Board does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Newaygo County Mental Health Board  
Notes To Financial Statements

---

Capital assets of the Board are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	5-10
Computers	5
Software	3
Vehicles	4
Land	Not Depreciated

### **Restricted Assets**

Cash has been restricted for future payment of compensated absences, retirees health insurance, Michigan Families program, and for the risk reserve liability. These restricted assets are held in separate cash accounts with local financial institutions.

### **Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings, compensated absences and post-employment benefits are examples of the latter.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### **Inpatient / Residential Cost Liability**

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Board does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Board.



Newaygo County Mental Health Board  
Notes To Financial Statements

---

**Deferred Revenue**

Deferred revenues arise when the Board receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

**Grants**

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

**Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Board's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Board does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**B. Excess Of Expenditures Over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, The Board incurred expenditures in excess of the amounts budgeted as shown on the budget comparison schedule in the back of this report as unfavorable variances.

Newaygo County Mental Health Board  
Notes To Financial Statements

**NOTE 3 - DETAIL NOTES**

**A. Cash And Investments**

At September 30, the carrying amount of the Board's cash and cash equivalents was as follows:

<b>Cash &amp; Cash Equivalents</b>	<b>2004</b>	<b>2003</b>
Petty Cash	\$200	\$200
Checking, Savings, And Money Market Accounts	914,307	1,740,885
Certificate of Deposit	1,154,640	-
Money Market Accounts - Restricted	1,436,747	1,757,327
<b>Totals</b>	<b>\$3,505,894</b>	<b>\$3,498,412</b>

The bank balance at year end was \$3,599,361 of which \$200,031 was covered by federal depository insurance and \$3,399,330 was uninsured and uncollateralized. Some of the deposits that exceed FDIC insurance coverage are held at local banks.

The Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Board evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

**Restricted Investments**

The Board has charged to the Department of Community Health, the vested portion of compensated absences and future expected cost of employees' health insurance as of September 30<sup>th</sup>. The Board holds, in a separate bank account, funds equal to or greater than these estimated liabilities. The use of these funds is restricted to payment of compensated absences and retiree health insurance premiums as they come due.

Cash and Investments in the Internal Service Fund have been restricted in the amount of \$75,685 for the expected future risk corridor requirements of the MCSSP contract.

The restricted cash shown above represents cash and cash equivalents restricted for the following:

<b>Restricted For:</b>	<b>2004</b>	<b>2003</b>
Compensated Absences	\$141,812	\$128,241
Michigan Families Program	613,939	742,673
Risk Reserve	75,685	269,365
Retirees Health Insurance	605,311	617,048
<b>Total</b>	<b>\$1,436,747</b>	<b>\$1,757,327</b>

Newaygo County Mental Health Board  
Notes To Financial Statements

**B. Accounts Receivable**

Accounts receivable represents amounts due from third party payers, patients, and others.

**C. Due From Other Governmental Units**

Due from other governmental units as of September 30<sup>th</sup> consists of the following:

<b>Due From:</b>	<b>2004</b>	<b>2003</b>
State of Michigan – OBRA	\$2,116	\$3,197
State of Michigan – Alzheimer's Program	17,934	23,094
State of Michigan – DCH, Children's Model Waiver	38,638	50,141
Newaygo County - Forensics	18,811	33,405
<b>Total</b>	<b>\$77,499</b>	<b>\$109,837</b>

**D. Prepaid Expenses**

Prepaid expenses represent payments for the following expenses that will benefit future periods:

<b>Prepaid Expense</b>	<b>2004</b>	<b>2003</b>
Insurance	\$58,200	\$47,175
Other	16,438	7,477
Rent	-	1,025
<b>Total</b>	<b>\$74,638</b>	<b>\$55,677</b>

**E. Capital Assets**

A summary of changes in capital assets is as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Land	\$50,000	-	-	\$50,000
Vehicles	368,543	-	-	368,543
Furniture, Fixtures & Equip.	141,190	-	-	141,190
Computers and Software	72,558	-	-	72,558
<b>Sub-total</b>	<b>632,291</b>	<b>-</b>	<b>-</b>	<b>632,291</b>
Accumulated Depreciation	(372,926)	(\$81,047)	-	(453,973)
<b>Totals</b>	<b>\$259,365</b>	<b>(\$81,047)</b>	<b>-</b>	<b>\$178,318</b>

Newaygo County Mental Health Board  
Notes To Financial Statements

**F. Deferred Revenue**

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

Deferred Revenue	2004	2003
5% Carryforward - DCH	\$31,968	\$59,343
Totals	\$31,968	\$59,343

**G. Due To Other Governmental Units**

Due to other governmental units as of September 30<sup>th</sup> consist of the following:

Due To:	2004	2003
State Of Michigan – Inpatient/Residential	\$8,585	\$15,498
State Of Michigan – DCH Cost Settlement 9/03	3,041	3,041
Clinton-Eaton-Ingham – Medicaid	855,807	423,902
State of Michigan – DCH, Forensic Center	7,305	8,892
Other	17,349	41,228
Total	\$892,087	\$492,561

**H. Accrued Wages and Other Payroll Liabilities**

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

**I. Post-Employment Benefits Payable**

It is the policy of the Board to provide a continuation of health insurance coverage as a fringe benefit for retired employees of the Board (with the exception of the contract agents and part-time employees) who retire from active service in accordance with provisions of the policy. The following are the major provisions of the policy:

- Family continuation riders will not be included. Employees may purchase this coverage at their own expense.
- Full time employees may elect to enroll in employer-provided retiree health coverage provided they meet at least one of the following criteria:
  - Those who retire after attaining age 55 with at least 15 years of full-time service immediately before they retire;
  - Those who retire after attaining age 60 with at least 10 years of full-time service immediately before they retire; and
  - Those who terminate employment with the Agency before attaining age 55 but after completing at least 25 years of full-time service with the Agency. This group can enroll after attaining age 55.
  - Those who terminate employment because of a medical disability before attaining age 55 but after completing at least 15 years of full-time service with the Agency.

Newaygo County Mental Health Board  
Notes To Financial Statements

---

Employees may be required to pay a portion of the cost of coverage. The applicable cost is determined as follows:

- If you retire after attaining age 55 with at least 15 years of full-time employment immediately before your retirement, you are required to pay 25% of the cost of the coverage for yourself and spouse until you become eligible for Medicare (Part A or B).
- If you retire after attaining age 60 with at least 10 years of full-time employment immediately before your retirement, you will be required to pay 25% of the cost of the coverage for yourself and your spouse.
- If you leave employment before attaining age 55 but after completing at least 25 years of full-time employment with Employer, you will be required to pay 50% of the cost of coverage for yourself and your spouse. If you elect coverage for any dependent children, you will be required to pay 100% of the cost of their coverage.
- If you leave employment due to a medical disability before attaining age 55 but after completing at least 15 years of full-time employment immediately before you leave employment due to the medical disability, you will be required to pay 100% of the cost of the coverage for yourself, subject to the termination provisions in Section 5 of this policy.

An actuarial basis is used to determine the amount of the expenditure and to fund the plan. An amount equal to or greater than the current liability (\$605,311) is held in a restricted cash account for the future payment of these benefits. Additional information about the post-employment health insurance benefits as well as the actuarial report can be obtained by writing to: Newaygo County Mental Health Board, 1049 Newell Street, PO Box 867, White Cloud, MI 49349.

#### **J. Compensated Absences**

Board policy allows employees to accumulate up to 208 hours of leave time, which is less than or equal to one year of benefits, and to carry the accumulation for an indefinite period of time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense either when paid time off is used or upon termination of employment. As of September 30, 2004 and 2003 this liability was \$141,812 and \$128,241, respectively.

An amount equal to or greater than the current liability is held in a restricted cash account.

#### **K. Reserves and Designations**

A portion of the fund balance at September 30<sup>th</sup> has been reserved equal to the amount of prepaid expenses since prepaid expenses do not constitute "available spendable resources." A portion of the net assets/fund balance at September 30<sup>th</sup> has been reserved for an amount equal to the balance left to be disbursed for the Michigan Families program. A portion of net assets has been reserved in the amount of \$75,685 for the expected future risk corridor requirements of the MCSSP contract.

Newaygo County Mental Health Board  
Notes To Financial Statements

---

**L. Operating Leases**

Newaygo County Mental Health Board has entered into an operating lease for the use of real property with the County of Newaygo. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the liabilities.

The following is a schedule of the future minimum lease payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2004:

Year Ending September 30 <sup>th</sup>	Amount
2005	\$131,792
2006	32,948
2007	-
2008	-
2009	-
Thereafter	-

**M. Compliance Audits**

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

**N. Pension Plan**

The employees of the Board are covered under a defined benefit retirement plan with the Municipal Employees Retirement System through the County of Newaygo. The County established this retirement plan for all of its employees. The plan provides for normal retirement at age 60 with ten years of service credit. Early retirement is available with a minimum age of 55 with 15 years of service credit reduced by  $\frac{1}{2}$  of 1% for each month under age 60 unless "waiver of section 47f" is adopted by the municipality, in which case no reduction would be made. The municipality may limit the waiver to members with 25 or more years of service.

The normal retirement benefit is a monthly pension payable in an amount equal to 2.5% of average final compensation times the years and months of service credit, not to exceed 40 years of service credit. This amount is payable until death or, in case of a disability, until receipt of full social security benefits. Vesting occurs after ten years of plan participation.

On July 1, 1999, the full time employees of the Board were given the option to convert the defined benefit plan through the Municipal Employees Retirement System to a money purchase retirement plan administered by the ICMA Retirement Corporation. All new employees are automatically enrolled in the money purchase retirement plan.

Newaygo County Mental Health Board  
Notes To Financial Statements

---

Under this plan, the Board contributes 4% of earnings to the Plan on behalf of each participant. If the participant contributes 3% of their earnings to the Plan, then the Board will contribute an additional 3%, matching the Participant contribution. The Board has no further retirement obligation to any Participant under this plan. The Participant controls the investments of the funds with the ICMA Retirement Corporation.

The vesting schedule for the Agency contributions is dependent on the years of service completed with the Agency and is as follows:

<b>Years Of Service Completed</b>	<b>Percent Vested</b>
Zero	Zero
One	25%
Two	50%
Three	75%
Four Or More	100%

The pension expense for the years ended September 30, 2004 and 2003 was \$143,497 and \$136,664, respectively.

Additional information about these plans can be obtained at: MERS, 447 N. Canal Road, Lansing, MI 48917; and ICMA Retirement Corporation, 777 N. Capitol Street N.E., Washington, DC, 20002.

#### **O. Alternative Social Security Plan**

Those full-time employees in the MERS defined benefit plan, or fully participating in the defined contribution plan (i.e. matching 3% of their earnings), are not eligible for current contributions to be deducted for Social Security taxes, not including Medicare. As an alternative, the amount normally deducted for Social Security taxes (excluding Medicare) will be deducted from the employee's pay at a rate of 6.2% on a pre-tax basis. The Board matches this amount. The combined amount will be placed in a 401(a) alternative FICA plan, which is owned and controlled by the employee. This plan is considered an alternative plan to Social Security. Employees are immediately vested in this account, and the account is portable after termination of employment.

Full-time employees who are not participating in Social Security, who elect to go part-time, will be enrolled in the Social Security system, and have payroll deductions for that purpose. Part-time employees who elect to become full-time, and fully participate in the defined contribution retirement plan, will be enrolled in the FICA alternative 401(a) plan.

Newaygo County Mental Health Board  
Notes To Financial Statements

**P. Risk Management**

The Board is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Board participated in the public entity risk pool – Michigan Municipal Risk Management Authority (the Authority) for auto and general liability, property and crime and vehicle physical damage coverage.

The Authority, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Board is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Board's limits, all further payments for such loss are the sole obligation of the Board. If for any reason, the Authority resources available to pay losses are depleted, the payment of all unpaid losses of the Board is the sole obligation of the Board.

Also, the Board authorized the establishment of an Internal Service Fund to account for funds to be used to cover the risk of overspending their authorized projected revenues covered by the Managed Care Specialty Services Program (MCSSP) contract.

The MCSSP contract entered into by the Board provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund that is restricted for use only to meet the expected future risk corridor requirements of the MCSSP contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Board finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Board by the contract. The Board's coverage limit is \$5,000,000 for liability and between \$10,000 to \$100,000,000 for property and crime. The contribution made by the Board to the MMRMA was \$33,582.

**Q. Prior Period Adjustments**

Prior period adjustments shown in the fund level financial statements in this report represent adjustments to fund balance due to the following:

Adjustment	2004	2003
Removal of compensated absences liability	-	\$117,435
A Removal of retiree's insurance liability	-	526,092
DCH Cost Settlement Adjustment – 9/30/03	\$809	-
Total Increase (Decrease) To Fund Balance	\$809	\$643,527



Newaygo County Mental Health Board  
Notes To Financial Statements

---

This page was intentionally left blank.

**REQUIRED SUPPLEMENTAL INFORMATION**

BUDGETARY COMPARISON SCHEDULE

NEWAYGO COUNTY MENTAL HEALTH BOARD  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
<b>Revenues</b>				
State Grants				
Department of Community Health Contract	\$1,067,150	\$1,069,777	\$1,045,418	(\$24,359)
Adult Model Waiver	180,000	235,400	230,512	(4,888)
Michigan Families Program	-	9,516	9,516	-
MI Child	8,500	9,063	8,971	(92)
Title XX	2,579	2,579	2,579	-
Total State Grants	1,258,229	1,326,335	1,296,996	(29,339)
Federal Grants				
Mental Health Block Grant	-	3,236	3,236	-
Alzheimer's Grant	60,450	60,450	60,450	-
PAS / ARR Grant	8,500	10,500	11,649	1,149
Total Federal Grants	68,950	74,186	75,335	1,149
Contributions - Local Units				
Child Care Fund	12,000	12,000	-	(12,000)
County Appropriations	220,000	220,000	220,000	-
Total Contributions - Local Units	232,000	232,000	220,000	(12,000)
Charges for Services				
Medicaid - DCH Contract	5,410,000	5,183,000	4,360,685	(822,315)
Medicaid - Other	108,891	109,000	97,411	(11,589)
Client and Third Party Pay	31,000	38,000	48,084	10,084
Total Charges for Services	5,549,891	5,330,000	4,506,180	(823,820)
Interest and Rents	37,000	33,000	33,661	661
Other Revenue	420,000	296,005	311,948	15,943
Total Revenues	7,566,070	7,291,526	6,444,120	(847,406)

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
<b>Expenditures</b>				
Health & Welfare - Mental Health				
Current:				
Personnel Expenditures	\$3,492,397	\$3,776,590	\$3,532,663	\$243,927
Operating Expenditures	3,547,575	3,514,936	3,076,822	438,114
Capital Outlay	-	-	-	-
<b>Total Expenditures</b>	<b>7,039,972</b>	<b>7,291,526</b>	<b>6,609,485</b>	<b>682,041</b>
Revenues Over (Under) Expenditures	526,098	-	(165,365)	(165,365)
Other Financing Sources (Uses)				
Operating Transfers In (Out) - Internal Service Fund	-	-	16,783	16,783
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	526,098	-	(148,582)	(148,582)
Fund Balance, Beginning Of Year	2,647,672	2,647,672	2,647,672	-
Prior Period Adjustment	-	-	809	809
Fund Balance, End Of Year	<u>\$3,173,770</u>	<u>\$2,647,672</u>	<u>\$2,499,899</u>	<u>(\$147,773)</u>

The notes to the financial statements are an integral part of this statement.

**OTHER SUPPLEMENTAL INFORMATION**

INDIVIDUAL FUND STATEMENTS

NEWAYGO COUNTY MENTAL HEALTH BOARD  
SUPPORTING OF PERSONNEL EXPENDITURES  
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

	Governmental Fund Types		Total Governmental Funds	
	General Fund	Michigan Families	2004	2003
<b>Personnel Expenditures</b>				
Salaries And Wages	\$2,578,955	\$78,888	\$2,657,843	\$2,526,123
Fringe Benefits	861,269	13,551	874,820	761,587
<b>Total Personnel Expenditures</b>	<u>\$3,440,224</u>	<u>\$92,439</u>	<u>\$3,532,663</u>	<u>\$3,287,710</u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD  
SUPPORTING SCHEDULE OF OPERATING EXPENDITURES  
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

	Governmental Fund Types		Total Governmental Funds	
	General Fund	Michigan Families	2004	2003
<b>Operating Expenditures</b>				
Accreditation	\$8,050	-	\$8,050	\$6,015
Affiliation Expense	8,680	-	8,680	7,890
Alzheimers Project	64,502	-	64,502	69,050
Board Per Diem	21,965	-	21,965	16,710
Board Lodging, Meals, Travel, Conference	28,278	-	28,278	28,782
Capital Outlay - Under \$5,000	67,576	\$1,495	69,071	31,027
Car Expense	33,902	9	33,911	28,724
Computer Enhancements	59,316	1,835	61,151	61,776
Community Hab Waiver	1,059,118	-	1,059,118	1,257,658
Dues and Memberships	9,740	2	9,742	10,883
Empowerment Network	64,715	-	64,715	22,873
General Administration	-	22,549	22,549	-
Inpatient Care	471,481	-	471,481	525,005
Insurance - W/C	49,129	1,092	50,221	52,766
Legal and Accounting	17,881	-	17,881	9,817
Miscellaneous Person Expense	13,582	3,516	17,098	19,647
Medicaid Capacity Building	128,256	5,760	134,016	3,170
Public Relations	12,991	-	12,991	17,617
Publications	3,712	-	3,712	3,148
Purchase Of Services	-	-	-	68,189
Professional Contracts	437,080	-	437,080	829,954
Recruitment	2,589	1,045	3,634	4,072
Rent	130,368	7,907	138,275	131,792
Repairs and Maintenance	3,823	-	3,823	5,784
Respite	81,947	5,045	86,992	480
Residential	-	-	-	342
Supplies	57,887	-	57,887	61,022
Telephone	35,742	1,105	36,847	56,841
Transportation	49,834	-	49,834	49,282
Travel, Meals, Lodging, Conferences, & Training	66,220	2,162	68,382	76,009
Unemployment	7,498	172	7,670	18,171
Utilities	25,630	1,636	27,266	23,309
<b>Totals</b>	<b>\$3,021,492</b>	<b>\$55,330</b>	<b>\$3,076,822</b>	<b>\$3,497,805</b>

The notes to the financial statements are an integral part of this statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Newaygo County Mental Health Board  
White Cloud, Michigan

We have audited the financial statements of the Newaygo County Mental Health Board as of and for the year ended September 30, 2004, and have issued our report thereon dated December 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Newaygo County Mental Health Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Newaygo County Mental Health Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.



A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated December 14, 2004.

This report is intended for the information of the audit committee, management, others within the organization, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Company P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 14, 2004



## MANAGEMENT LETTER

Board of Directors  
Newaygo County Mental Health Board  
White Cloud, Michigan

In planning and performing our audit of the financial statements for Newaygo County Mental Health Board for the fiscal year ended September 30, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 14, 2004 on the financial statements of Newaygo County Mental Health Board.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Roslund, Prestage & Company P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 14, 2004

Newaygo County Mental Health Board  
Management Letter

**Perform a Fraud Risk Assessment**

In light of the wave of notorious frauds involving large organizations in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small organizations. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in organizations with 10,000 or more employees.

Whereas the highly publicized frauds at large public organizations like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud. To address this risk, we recommend that Newaygo County Mental Health Board (the Board) perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Board's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Board, its environment, and its processes. The fraud risk assessment process should consider the Board's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Board have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.

Newaygo County Mental Health Board  
Management Letter

- What assets of the Board are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Board has a culture or environment that would enable management or individuals to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the Board's systems, procedures, and existing controls relating to the identified areas should be conducted. The Board should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.

Newaygo County Mental Health Board  
Management Letter

- Implementing an Employee Hotline. Tips and complaints from fellow employees or vendors have enabled many organizations to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of Work Performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriation of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Board to the extent possible.

When assessing the Board's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Board may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.

Newaygo County Mental Health Board  
Management Letter

**Review Payroll Records for Unusual Matters**

Performing a careful review of the payroll register (that is, the schedule showing the calculation of gross pay, deductions, and net pay) and payroll check register can highlight several types of payroll fraud. We recommend that an appropriate person periodically make such a review, being alert for unusual matters that might suggest fraud, such as the following:

- Duplicate names or addresses.
- Names of former employees.
- Math errors (which may indicate diversion of payroll or payroll taxes).
- Unusual pay rates or numbers of hours worked.
- Factors that may indicate ghost employees.